

## FREEMAN REPORT



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## QUOTE OF THE MONTH

*“As friendly neighbors, Vietnam takes pleasure in China’s development, particularly its military development, which neither poses a threat to other countries nor jeopardizes regional peace and stability.”* ~ Vietnamese Vice Defense Minister **Nguyen Chi Vinh** welcoming China’s presence at the upcoming ASEAN defense ministers’ meeting, which has been expanded to include the eight dialogue partners and representatives of the ASEAN Secretariat. Minister Vinh believes cooperation with China is crucial to building mutual trust and will lead to additional help from China on non-traditional security threats such as disaster relief. The fourth bilateral strategic defense dialogue between China and Vietnam is scheduled to be held later this year.

**Source:** *Xinhua*, August 25, 2010

The *Freeman Report* provides an open forum for individual opinions and commentaries on China. All opinions expressed in the feature essay of the report are those of the author.

## Feature Article

## CROSS-STRAIT PROSPECTS: ECFA AND BEYOND

By Robert S. Wang

The signing of the Economic Cooperation Framework Agreement (ECFA) between Beijing and Taipei on June 29 was indeed a significant and concrete milestone in cross-strait relations. It builds on a series of agreements that has rapidly expanded direct links and economic ties since President Ma Ying-jeou took office in May 2008. With the ratification of ECFA by Taiwan’s Legislative Yuan (LY) on August 17, implementation should begin within the next few months. Although an assessment of its impact cannot be made until further into 2011, most economists expect this free trade agreement (FTA) to bolster two-way trade quickly, given an “early harvest” of tariff reductions for a wide range of products on both sides. And although the specific impact on different sectors of the economy may not be uniformly positive, ECFA should help accelerate Taiwan’s overall economic growth in the coming years.

Beyond its immediate economic impact, the successful negotiations that led to the ECFA can be seen more broadly as part of an effort by Beijing to win the “hearts and minds” of the people of Taiwan by tangibly contributing to the island’s economic growth. Beijing clearly sees this agreement as promoting economic integration and helping to achieve its long-term goal of peaceful reunification. At the same time, President Ma has publicly and repeatedly said he expects the signing of ECFA to lower political barriers and increase economic incentives for other countries to begin negotiating similar agreements with Taiwan. Taiwan has indicated it has begun exploring the possibility of FTAs with various countries in the region, particularly within ASEAN. On August 5, Singapore and Taiwan jointly acknowledged they were exploring the feasibility of an economic agreement “on a par with a free trade agreement.” From Taiwan’s perspective, additional FTAs are critical because they would allow Taiwan to expand and diversify its regional and global trade links, thus avoiding economic isolation or marginalization within the region, reducing risk and spurring economic development. If and as this process unfolds, Beijing is likely to garner much credit and goodwill at least among a significant percentage of

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the Taiwan population. This in turn would generate greater support in Taiwan for cross-Strait reconciliation and help build up trust between the two sides.

At this point, however, it is still unclear as to how Beijing is responding or will respond to President Ma's call for FTAs with Taiwan's other trading partners. Although some see Beijing's response to the recent Taiwan and Singapore announcement as a "green light" to go ahead, others continue to harbor doubts about China's intent and Taiwan's economic prospects. Singapore officials themselves have underscored their sensitivities to Beijing's political concerns by pointing out the announcements were purposefully made by their respective trade representative offices rather than by each of the governments in Singapore and Taipei. They also deliberately agreed not to characterize the agreement as an FTA but only as one being "on a par with" an FTA. Beijing's rather terse but carefully worded response to the announcements ("We believe that Singapore will adhere to the one-China policy, and properly handle its economic and trade relations with Taiwan accordingly.") did not clearly commit China to generally accepting the right of Taiwan to enter into FTAs with other WTO members, a right asserted by President Ma and recognized by the United States and presumably by the WTO. Moreover, Beijing's response may be interpreted by some as an attempt by China to establish the claim that it has the right to approve or disapprove of Taiwan's efforts to negotiate FTAs with other countries on a case by case basis. What some saw as a "green light" for Taiwan and Singapore to go ahead, at least for the time being, might be seen by others as a "flashing red light" for additional FTAs with Taiwan.

Hence, the controversy over ECFA continues in Taiwan. In large part, the doubts about China's intent persist because of the deep distrust between the two sides built up over more than half a century of conflict and confrontation. Many in Taiwan are convinced that Beijing is using ECFA not to contribute to Taiwan's growth but to increase Taiwan's dependence on the mainland. Taiwan's 2010 first-half trade statistics show that China (including Hong Kong) accounted for about 30% of Taiwan's total trade and 43% of Taiwan's total exports. In comparison, Japan accounted for 14% of its total trade and 7% of its total exports. The United States accounted for 10% of total trade and 11% of total exports. Taiwan's exports to China have grown rapidly over the past two decades, and this trend is expected

## IN THE NEWS

**BEIJING** --- South African President Jacob Zuma concluded his three-day visit to China by signing trade agreements relating to minerals, environment, and transportation. Accompanied with seventeen cabinet members and roughly 300 businessmen, President Zuma expressed the importance of China's investment to South Africa's growth. South Africa exceeded the United States as China's top export destination, and it reports a \$2.7 billion trade deficit with China in 2009. President Hu and President Zuma solidified their "comprehensive strategic partnership" designed to balance trade between the two countries and focus on South Africa's infrastructure, manufacturing industry, and renewable energy. The China Railway Group also announced negotiations of a \$30 billion high-speed railway project between Johannesburg and Durban.

**DANANG** --- Chinese Commerce Minister Chen Deming made encouraging trade promotion remarks at the 42nd ASEAN economic ministers' meeting on August 23-27. With the opening of a free-trade agreement at the beginning of 2010, trade between China and ASEAN surged 49.6 percent year-on-year in the first seven months to \$161 billion. As the ASEAN Economic Community works towards the goal of a single market by 2015, China vows to implement trade mechanisms to lower costs and engender an overall conducive trade environment. According to statistics from the Chinese Ministry of Commerce, the total economic output of ASEAN plus three countries accounts for nearly 20 percent of world GDP, and the total trade of this region makes up 31 percent of the world trade.

to accelerate rapidly with the implementation of ECFA. Thus, unless Taiwan is able to significantly diversify its trade and investment links beyond those with China, its economic dependence on China will grow. The concern is that excessive economic dependence on China, while sustaining Taiwan's short-term growth, will also reduce Taiwan's systemic viability and its ability to maintain the political status quo, if Beijing should choose to use its substantial leverage.

These opponents of ECFA thus argue that Beijing's response to the recent Singapore-Taiwan announcement was a disingenuous way to discourage or block additional FTAs while not going on record as opposing them.

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Countries (or grouping of countries such as APEC or the Trans-Pacific Partnership) interested in an FTA with or involving Taiwan may now feel obliged to consult with Beijing before and while negotiating with Taiwan, if they did not previously. This additional “requirement” may dissuade or discourage many from considering an FTA with Taiwan. Even if inaccurate, the perception that Beijing may have influence over these decisions expands Beijing’s latitude to choose a time and place to intervene. Moreover, even if Taiwan were eventually able to initiate FTA negotiations with some countries, e.g., within ASEAN, it is unclear whether Beijing will respond as positively to efforts by Taiwan to negotiate FTAs with its major trading partners, such as Japan, Korea or the United States. It appears even the Ma Administration is sensitive to Beijing concerns by adopting a rather modest approach in its initial quest for FTAs. If eventually constrained or blocked in its quest for new FTAs, Taiwan’s economic dependence on China is almost certain to increase. While Beijing may hope to win the hearts and minds of the people in Taiwan through ECFA, the suspicion that China is in fact seeking to isolate Taiwan to increase its own leverage to advance reunification will seriously detract from that effort.

To dispel such doubts, Beijing will need to go beyond its tepid response to Taiwan’s quest for additional FTAs. It will need to publicly acknowledge Taiwan’s right as a WTO member to negotiate and sign FTAs with other WTO members. It may even want to encourage others to negotiate FTAs with Taiwan to underscore China’s interest in the island’s economic well-being. To be sure, Beijing has the right in so doing to underscore its “one-China” policy and to urge others to adhere to this policy when negotiating FTAs with Taiwan. The fact is China has little or nothing to fear on this score. Taiwan’s major trading partners, such as Singapore, Korea or Japan, all have long-standing diplomatic relations and important ties with Beijing and are certainly not going to risk endangering this relationship by seeking to establish “official” ties with Taiwan under the cover of an FTA. By taking a bolder and more positive stance on this question, Beijing would effectively undercut the argument of those opposed to ECFA and go a long way to build trust and enhance cross-Strait relations. Whether China will decide to do so or not, however, remains a critical question.

***Robert S. Wang is a visiting fellow with the Freeman Chair in China Studies at CSIS.***

The views expressed in this article are those of the author, and do not necessarily reflect those of the U.S. Department of State or the U.S. Government.

## PUBLICATIONS

- “Singapore’s Tightrope Walk on Taiwan,” *CSIS Southeast Asia from the Corner of 18th & K*, Vol. 1, No.26, CSIS, August 17, 2010 By **Ernest Z. Bower**, Senior Advisor and Director of Southeast Asia Program, CSIS, and **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, CSIS

As Singapore and Taiwan embark on the possibility of a free-trade agreement, both sides must consider China’s interpretation of and reaction to the evolving relationship. Singapore will respect the one-China policy while simultaneously pursuing its national interests. Given recent Southeast Asian reactions to China’s revealingly aggressive reactions to U.S. proposals to resolve South China Sea disputes on a multilateral basis using international law, China may decide to keep its watchful eye on Singapore’s and Taiwan’s trade negotiations hidden from public view.

- “Managing Expectations,” *China Economic Review*, July, 2010 By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, CSIS, and **Jeffrey Bean**, Research Assistant, Freeman Chair in China Studies, CSIS

The Strategic and Economic Dialogue (S&ED) can be a useful vehicle to manage long-term problems and lessen strategic mistrust between the United States and China. However, the effort put into the dialogue in the U.S. interagency process means there is great pressure from Congress and media for tangible deliverables. Ultimately, the United States will come to accept the reality that the S&ED is a high-level opportunity for grand conceptual thinking, which is the vision China has for the meeting.

- “Asia’s Response to Climate Change and Natural Disasters: Implications for an Evolving Regional Architecture,” CSIS, July 16, 2010 Project Directors: **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, CSIS, and **Michael J. Green**, Senior Advisor and Japan Chair, CSIS. Editors and Coordinators: **Robert S. Wang**, Visiting Fellow, Freeman Chair in China Studies, CSIS, and **Jeffrey Bean**, Research Assistant, Freeman Chair in China Studies, CSIS

The report examines the politics of climate change in Asia, the region’s response to natural disasters, and the implications for the future geometry of Asian institutions and U.S. policies in the region. The authors believe that the United States will continue to play a critical role in supporting the region’s responses to many of the natural disasters it will face. The report suggests the United States seek to focus Asia’s attention on the long-term threat of climate change and other slow-onset disasters. It recommends the United States should continue its bilateral and multilateral programs to increase energy efficiency, and the use of alternative energy and clean-coal technology. The report also recommends the United States should begin to explore broad, secure, low-carbon pathways within the Asia-Pacific Partnership on Clean Development and Climate.

## Publications from the Freeman Chair 2010\*

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\*Please visit our Web site to access archived publications dating back to 2002.

### 2010

#### August

- “Singapore’s Tightrope Walk on Taiwan,” *CSIS Southeast Asia from the Corner of 18th & K*, Vol. 1, No.26, CSIS, August 17, 2010 By **Ernest Z. Bower**, Senior Advisor and Director of Southeast Asia Program, CSIS, and **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, CSIS

#### July

- “Managing Expectations,” *China Economic Review*, July, 2010 By **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, CSIS, and **Jeffrey Bean**, Research Assistant, Freeman Chair in China Studies, CSIS
- “Asia’s Response to Climate Change and Natural Disasters: Implications for an Evolving Regional Architecture,” CSIS, July 16, 2010 Project Directors: **Charles W. Freeman III**, Chairholder, Freeman Chair in China Studies, CSIS, and **Michael J. Green**, Senior Advisor and Japan Chair, CSIS. Editors and Coordinators: **Robert S. Wang**, Visiting Fellow, Freeman Chair in China Studies, CSIS, and **Jeffrey Bean**, Research Assistant, Freeman Chair in China Studies, CSIS
- “U.S.-China Relations: Cooperation Faces Challenges,” *Comparative Connections*, Vol. 12, No.2, CSIS Pacific Forum, July 15, 2010 By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS

#### June

- “Rising Wages in China: A New Shift Begins at the World’s Low-Cost Factory,” *China Knowledge@Wharton*, June 23, 2010 By **Wen Jin Yuan**, Research Intern, Freeman Chair in China Studies, CSIS, and **Autumn Zhu**, Managing Editor, China Knowledge@Wharton
- “China’s Burgeoning Foreign Reserves: Too Much of a Good Thing,” *China Knowledge@Wharton*, June 23, 2010 By **Wen Jin Yuan**, Research Intern, Freeman Chair in China Studies, CSIS
- “China’s Cheonan Problem,” *PacNet #31*, CSIS, June 18, 2010 By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS, and **Brad Glosserman**, Executive Director, Pacific Forum, CSIS

#### May

- “Preparation Needed for North Korean Collapse,” *PacNet #27*, CSIS, May 20, 2010. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS, and **Scott Snyder**, Director, Center for U.S.-Korea Policy, The Asia Foundation
- “Responding to Change on the Korean Peninsula: Impediments to U.S.-South Korea-China Coordination,” CSIS, May 6, 2010. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS, **Scott Snyder**, Director, Center for U.S.-Korea Policy, The Asia Foundation, **See-Won Byun**, Research Associate, Center for U.S.-Korea Policy, The Asia Foundation, and **David Szerlip**, George Washington University

#### April

- “U.S.-China Relations: The Honeymoon Ends,” *Comparative Connections*, Vol. 12, No.1, CSIS Pacific Forum, April 14, 2010 By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS, and **David Szerlip**, George Washington University

## CONFERENCES AND EVENTS

### • July 16 *Asia's Response to Climate Change and Natural Disasters: Implications for an Evolving Regional Architecture*

The event featured the rollout of a CSIS report, “*Asia's Response to Climate Change and Natural Disasters: Implications for an Evolving Architecture.*” **Charles W. Freeman III**, Chairholder, CSIS Freeman Chair in China Studies, **Victor Cha**, Senior Adviser and Korea Chair, CSIS, **Stacey White**, Fellow, CSIS Post-Conflict Reconstruction Project, and **David Pumphrey**, Deputy Director and Senior Fellow, CSIS Energy and National Security Program discussed their findings on the politics of climate change in Asia, the region's response to natural disasters, and implications for the future geometry of Asia's institutions and U.S. policy in the region. **Kurt Tong**, of the U.S. Department of State, and other panelists provided commentary.

### • July 13 *Pingtan Island: From a Military Exercise Base to an Economic Zone*

Pingtan Island, the fifth largest island in China, is becoming a special economic zone, co-managed by mainland China and Taiwan. **Dr. Shao Yuqun**, Deputy Director of the Department of South Asia Studies at the Shanghai Institutes for International Studies, discussed the current plan of Pingtan Island and its implications for cross-strait relations. **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies, moderated the session.

### • June 22 *CSIS Press Briefing: The President's Trip to the G8 and G20 Summits*

CSIS hosted a press briefing on President Obama's trip to the G8 and G20 Summits. **Heather Conley**, Director, CSIS Europe Program, **Charles W. Freeman III**, Chairholder of CSIS Freeman Chair in China Studies, **Fariborz Ghadar**, CSIS Senior Adviser and founding director of the Center for Global Business Studies at Penn State University, and **Lisa Carty**, Deputy Director, CSIS Global Health Policy Center shared their perspectives at the event.

### • June 18 *Taiwan's Experience of National Health Insurance System in Supporting Public Health Emergency Response*

Taiwan Minister of Health **Dr. Chih-Liang Yang** delivered a speech on Taiwan's experience of national health insurance system in supporting public health emergency response at CSIS. **Dr. J. Stephen Morrison**, Senior Vice President and Director of the Global Health Policy Center, CSIS, moderated the discussion.

### • June 16 *Congressional Briefing: China's Trade and Industrial Policies*

**Charles W. Freeman III**, Chairholder, CSIS Freeman Chair in China Studies, testified before the House Ways and Means Committee on China's trade and industrial policies. Click here to read his full testimony.

## FREEMAN FACTS

### Summer Floods in China

1. In June, more than 10 million people in China lost property, got injured, or suffered a cut in power or water supplies as a result of torrential rains across Guangdong, Fujian, Guangxi, Jiangxi, and Sichuan.
2. Flooding across China this year, the worst in the country over a decade, has hit 28 provinces.
3. China's floods this year have been the deadliest in more than a decade, killing over 3,185 people and leaving over 1,060 missing.
4. As of August 31, some 230 million Chinese were affected, nearly 15.2 million people were forced to evacuate, and 16.5 million hectares of crops were destroyed.
5. According to the figures released by the China National Committee for Disaster Reduction and the Ministry of Civil Affairs, the direct economic losses total to \$51.4 billion.

Sources: *China Daily, Guardian, and Xinhua*

The *Freeman Report* is an electronic newsletter produced monthly by the Freeman Chair in China Studies at the Center for Strategic and International Studies (CSIS), a private, tax exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions; accordingly, all views, positions, and conclusions expressed in this publication should be understood to be those of the author(s). © 2010, Center for Strategic and International Studies. All rights reserved.

## FREEMAN CHAIR IN CHINA STUDIES

**Charles W. Freeman III**, Freeman Chair in China Studies  
**Bonnie Glaser**, Senior Fellow  
**Robert S. Wang**, Visiting Fellow  
**Melissa Murphy**, Fellow  
**Savina Rupani**, Program Coordinator and Special Assistant to the Freeman Chair  
**Xiaoqing Lu Boynton**, Research Associate  
**Lee Ridley**, Project Coordinator/Research Assistant  
**Brittany Billingsley**, Research Associate and Program Coordinator  
**Jeffrey Bean**, Research Assistant  
**Wen Yuan and Lynn Huang**, Research Interns